

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 21, 1938To Chairman Eccles

Subject: _____

From Mr. Goldenweiser

On November 10 there was another meeting at the Treasury about foreign exchange matters. I have neglected to send you a note about it until now, because I was waiting to get a copy of the document that was prepared. Those present were: Secretary Morgenthau, Haas, Oliphant, Hansen, Riefler, Lochhead, Goldenweiser, Williams, White, Viner, Taylor, and Feis. There was a good deal of discussion, and finally the attached document was agreed upon to serve as a basis of such discussion as the Secretary may want to have with Bewley. The Secretary said that he was going to send for Butterworth, the Financial Attache in London, in order to have a first-hand report of recent developments there.



C O P Y

We are concerned by the decline in sterling.

1. This decline if it should continue is likely to raise questions in this country concerning the meaning and usefulness of the Tripartite Accord.

2. We feel there is an important difference between a movement in exchange rates caused by sustained changes in current income account of the balance of payments (i.e., trade, shipping, tourist, interest, etc.) and a movement caused by capital transfers. The former movement is not necessarily inconsistent with the purpose of the Tripartite Accord, but a decline due to capital transfers seems to us much less justifiable and much more likely to be injurious to our trade, to the price structure, and to the stability of world currencies in general.

3. Given a continuance of the present economic recovery and the increase in American commodity purchases abroad likely to accompany it, we do not at present find in the trade positions of the two countries any apparent fundamental reason for the appreciation of the dollar with reference to sterling. Moreover, it appears to us that there are substantial reasons why a decline of sterling may not be in the British interests.

4. We feel that a continued decline may seriously endanger the world economic situation just at a time when American recovery is tending to check the general decline of trade now affecting most countries.

5. It seems to us to be in our mutual interests and entirely in accord with the spirit of the Tripartite Agreement to discuss with you capital movements and to endeavor to formulate a more definite policy with respect to such movement and to devise more effective techniques for protecting exchanges from the undesirable influences of such movements.

6. The seriousness of this problem is increased by the fact that so many of the world currencies are tied in effect to sterling. Because of this, movement of sterling with respect to the dollar means in effect a movement of many other ~~would~~ currencies with respect to the dollar, including the currencies of countries whose international balances, whether on income or on capital account, certainly do not warrant a fall in their currencies.

7. In dealing with these questions, we find ourselves somewhat handicapped by the lack of information concerning the short-term capital and gold position of England corresponding to the information which we collect and periodically publish for the United States, and of information not published that we would be glad to exchange with the adherents of the Tripartite Accord.

November 15, 1938